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The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

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MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH : National Intelligence Officer for Warning

SUBJECT : Monthly Forecast and Warning Meeting

I. Europe's Economy: A Medium-term Forecast

1. Economic Outlook. Most analysts believe that European economic growth in the coming year will be lackluster compared to the US recovery, and not large enough to stem high unemployment. Some believe that the modest upswing foreseen for European economies this year could in fact, tempt governments to put off politically difficult structural adjustments that will be necessary for longer-term recovery. On the positive side, projected levels of growth will range from 2 1/2 percent for West Germany and Great Britain to 0-1 percent for France and Italy; inflation will be down from last year, ranging from 3 percent in the FRG, 7-9 percent in France and Britain, and 12 percent in Italy. However, sources for continuing economic pessimism in Europe remain: high unemployment, few cutbacks in the expensive welfare system, costly new labor demands in some countries, and the rising possibility of labor strife.

2. EC and the French Presidency. Community analysts agree that the European Community faces a major crisis this year in resolving its differences on EC budget and agricultural policies. Most analysts believe that the EC, under French leadership, will marshal the political will to reach compromises needed to avert the bankruptcy of the Common Agricultural Policy and to limit national budget contributions that discriminate against the British and West Germans. These analysts point to the "crisis" atmosphere and the Mitterrand

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government's renewed commitment to Europe as the essential ingredients for reaching economic compromises acceptable to all parties. However, other analysts emphasize that the necessary political consensus on EC budget and agricultural reforms will be difficult to construct in time for the March EC summit; they note that Paris has only begun its bilateral talks with EC partners and has not announced any new initiatives to resolve the differences revealed at the December Athens meeting. Spain's accession rides on the Community's ability to put its economic house in order this year, and both Madrid and Paris may expect the United States to accept EC import restrictions in order to facilitate Spain's accession.

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II. European Attitudes toward Central America

3. Role of the SI. The official views of the Socialist International have not moderated much over the past few months, and Central America remains the area of greatest ideological disagreement between the SI and the United States. The tacit agreement under Willy Brandt's leadership -- to allow non-European members to take the lead in Third World issues while European countries dominate the arms control and security field -- will tend to perpetuate an anti-US tone to SI pronouncements on Central America. Analysts do not expect any great change in the organization's posture, even though there is speculation that Willy Brandt may step down as early as next year, since possible successors are still likely to defer to Latin American views on Central America. Within their national political contexts, however, West European Socialist leaders are behaving more moderately than suggested by official SI statements. The revelation of Cuban manipulation of SI activities in the Caribbean has recently caused internal strife among members. Privately, some West European Socialist leaders have acknowledged their growing disenchantment with Nicaragua.

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5. Government Views on Central America.

there has been some moderation in official criticism of US policies in the region -- owing in part to high level US visits (Bush, Dam, Stone, etc.) and Department efforts to explain Washington's views. Also, Central America remains essentially a secondary concern to most West Europeans, compared to INF, US-Soviet relations, and the general East-West dialogue. Analysts note, however, that many Europeans still see the US supporting more rightist elements in Central America, not safeguarding human rights, and using heavy pressure on Nicaragua

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that could harden Managua's attitude toward the West. West Europeans have always wanted to believe that moderate elements existed within the Sandinista directorate, but some analysts believe that there has been substantial progress in weaning them from this view -- e.g., Italian, Portuguese, and Spanish disenchantment has grown



III. Watching Briefs: Turkey

6. Turkey and the Council of Europe (CDE). A long festering confrontation between Ankara and the Council -- over the seating of a Turkish parliamentary delegation to the European Assembly -- could occur this month. The COE has proposed that Ankara not send a delegation in exchange for the Council deferring action on Turkish membership until May. Most analysts believe that President Ozal will ultimately accept the compromise, provided there is sufficient assurance that Turkish credentials will be accepted then. Barring such assurances, Ozal appears inclined to force the issue.

7. Europe and the MNF. Analysts agree that European participants in the MNF are looking for ways to end their involvement in Lebanon, although Paris and Rome have made only limited reductions thus far. The Italians and the French appear ready ultimately to let the UN take their places -- if the French can convince the Soviets, and the Syrians, to accede to this approach. European allies have become more concerned about a sudden change in the US MNF posture that could catch them by surprise. Europeans will view any US redeployment that appears to reduce American risks relative to theirs -- e.g., partial or complete redeployment off-shore -- as a step toward US withdrawal which could, in turn, precipitate Italian and French withdrawals.

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